Protecting Alberta's Future...

Why We Oppose the Federal Goods and Services Tax (GST)

The Honourable Don Getty
Premier

The Honourable Dick Johnston
Provincial Treasurer

Alberta

90-02280/

TABLE OF CONTENTS

Page

Why Alberta Opposes The Goods and Services Tax: Overview 3

Future Directions and Alternatives 6

The Case Against the Goods and Services Tax 7

- Federal Tax Grab 7
- Conflict Between Federal Fiscal Policy and Monetary Policy 8
- Harmful Economic Effects 10
- Increased Alberta Deficit 15
- Added Complexity for the Taxpayer 16
- Fiscal Centralization 18

"Mister Prime Minister, you mentioned that you are leaving the door open to provinces on the Goods and Services Tax. You do not have to leave the door open to Alberta. We are not coming in."

Premier Don Getty
First Ministers' Conference
November 9, 1989
Ottawa

November, 1989

WHY ALBERTA OPPOSES THE GOODS AND SERVICES TAX: OVERVIEW

In June 1987, the federal government released a paper on sales tax reform describing alternative methods of extending its taxing power to the retail sales level. The option selected in the spring of 1989 was the Goods and Services Tax (GST), an invoice-based value added tax.

The GST, as proposed, would apply at a rate of 9 percent to nearly all goods and services sold in Canada. Haircuts, baby clothes, travel, restaurant meals, heating fuel, electricity, newspapers, books, parking fees, camping fees, hunting and fishing licenses, and even funeral services would be subject to the new federal tax.

Premier Don Getty has steadfastly opposed the federal government's plan to increase the tax burden on Canadians through a new sales tax at the retail level. In Alberta's view, the dramatic expansion of the federal role in consumption taxes will harm the Canadian economy and strain the very fabric of Confederation.

The federal government views the GST from a very limited perspective. It claims the GST is an improvement over the existing Manufacturers' Sales Tax (MST).

We believe the GST should be assessed within the broader context of overall federal fiscal policy and the need for better co-ordination with monetary policy. We also believe that, in addressing national issues of this magnitude, federal and provincial governments must jointly evaluate a broad range of alternatives and select solutions that are consistent with the federal structure of our country.

The federal government stresses the potential long-term benefits of replacing the MST with the GST. However, there is evidence that these long-term benefits are uncertain and much smaller than the federal estimates.

The Government of Alberta is particularly concerned about the harmful effects of the GST over the next three years. There is a general consensus among independent analysts that the medium-term impact of the GST will be negative and substantial. In our view, Canada cannot afford the risk of the GST plunging the economy into a recession, followed by a prolonged period of slower growth.

Alberta's case against the GST.

1. The GST is a federal tax grab.

During the past five years, the burden of federal taxation on Canadians has increased substantially yet the federal deficit remains high. These increases have been largely concentrated in consumption taxes. In 1990 alone, Canadians will pay $17 billion more because of the federal tax increases since 1984. In total over this period, Canadians will have paid over $50 billion more in taxes.

In 1991, the GST will extract at least $24 billion from Canadians. By comparison, the MST would have taken $18 billion. The GST is not revenue neutral. It is a $6 billion tax grab. One percentage point of GST will generate twice as much revenue as one percentage point of MST.

2. The GST will aggravate the conflict between federal fiscal policy and monetary policy.

Federal reliance on massive increases in taxes, especially consumption taxes, to fight the deficit is counter-productive. Higher consumption taxes help fuel inflation and automatically raise federal spending on programs indexed to inflation. Higher prices lead to higher interest rates because of the Bank of Canada's concern with inflation. Higher interest rates, in turn, raise the cost of servicing the national debt, thus further increasing federal spending. Therefore, the additional revenue is largely offset by higher spending.

Federal fiscal policy is in conflict with the Bank's monetary policy. The GST will aggravate this policy conflict.

3. The GST will harm Canada's and Alberta's economies.

The GST will fuel inflation, raise interest rates and reduce consumer spending. This will lower real output and cause substantial job losses right across Canada.

Alberta consumers, who spend more per capita than other Canadians, will be hard hit by the new federal consumption tax. The resulting higher interest rates are of particular concern to Alberta given the capital-intensive nature of our economy. Higher interest rates will also drive up the exchange rate, thereby lowering the net returns to our exporters. In addition, the new tax will penalize Albertans by raising transportation costs and hindering diversification, especially in the tourism sector.

4. *The GST will increase Alberta's budget deficit.*

Under the GST, Alberta faces the prospect of substantial losses of revenue and increased pressures on expenditures due to slower economic growth and higher inflation. By harming the fiscal positions of provinces, the GST will further impair the provinces' abilities to meet their constitutional responsibilities in areas such as health, education and social services.

5. *The GST will add to the complexity of the Canadian tax system.*

The GST will be a nightmare for individuals and business. It will create a mountain of paperwork and higher costs.

Approximately one and a half million Canadian businesses and non-profit organizations will be required to join the sales tax system, a 20-fold increase from the current system. Thousands of employees will be added to the federal bureaucracy and hundreds of millions of dollars will be spent to collect the tax.

Businesses registered under the GST will require new accounting systems to deal with the complexities of the GST. Consumers will be confused because the federal government will not, as previously promised, require the new tax to be visible.

6. *The GST will continue the federal policy of fiscal centralization.*

Over the past few years, the federal government has followed a policy of fiscal centralization. It has expanded the use of its taxing powers and reduced its commitment to transfer payments to the provinces for major social programs.

The GST is a move towards even greater centralization of fiscal power. It will aggravate the federal-provincial fiscal imbalance, placing additional strains on Confederation.

FUTURE DIRECTIONS AND ALTERNATIVES

Alberta remains totally opposed to the GST. Premier Getty is not alone in his opposition. All Premiers have termed the proposed tax unacceptable. Surveys show that Canadians are overwhelmingly opposed to the GST.

The federal government has asked opponents of the GST to present alternatives. However, the federal government does not want to consider options other than some form of value added tax. We believe that this perspective is simply too narrow.

Effective solutions can only be found through a comprehensive review of federal fiscal policy. This country needs to reassess its expenditure priorities. As well, more attention needs to be given to improving the collection of current federal taxes.

The review should also deal explicitly with the need for better co-ordination between federal fiscal policy and the Bank of Canada's monetary policy. As a first step, Canadian interest rates must be brought more in line with U.S. rates. At the November, 1989 First Ministers' Conference, Premier Getty called for a reduction of one and a half percentage points in short-term interest rates. This would help reduce the federal deficit immediately by over $2 billion.

The various options flowing from such a comprehensive review should be critically evaluated in terms of their effect on federal-provincial fiscal balances and the provinces' abilities to meet their constitutional responsibilities for health, education and social services.

Therefore, Alberta proposes the following to the federal government:

1. **Drop the GST.**
2. **Reduce interest rates.**
3. **Reassess national spending priorities.**
4. **Improve the collection of current federal taxes.**
5. **Initiate a process of meaningful consultation with the provinces for the purpose of developing a more effective fiscal policy, better coordination with monetary policy, and a suitable fiscal balance with the provinces.**

THE CASE AGAINST THE GOODS AND SERVICES TAX

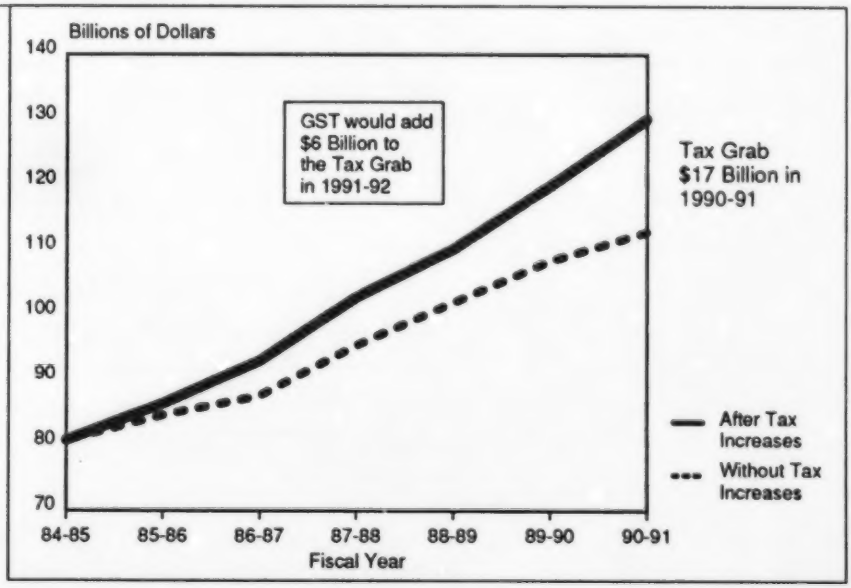
The GST is a federal tax grab.

During the past five years, the burden of federal taxation on Canadians has increased substantially yet the federal deficit remains high. In 1990 alone, Canadians will be paying $17 billion more in taxes because of federal tax increases.

The federal tax grab has been largely concentrated on consumption taxes, an area traditionally left to the provinces. Nearly two-thirds of the extra taxes to be paid in 1990 result from consumption tax increases. **In Alberta, we do not levy a retail sales tax. This leaves more money in the pockets of Albertans.** The federal government has taken some of this money through its tax increases. It plans to take even more through the GST.

All federal consumption tax rates have been raised in varying degrees over the past five years. The MST general rate has been increased by 50 percent and a new telecommunications tax was introduced in 1988 at a rate of 10 percent. Since 1984, federal taxes on gasoline have nearly tripled, to 12.0 cents per litre from 4.2 cents per litre.

Growth of Federal Tax Revenues



Changes in Selected Federal Taxes

	1984	1989	% Change
Manufacturers' Sales Tax			
General Rate	9%	13.5%	50
Building Materials	5%	8%	60
Alcohol and Tobacco Products	12%	19%	58
Telecommunications Programming Services	6%	11%	83
Telecommunications Tax	–	11%	N/A
Gasoline (leaded per litre)			
Excise Tax	1.5¢	8.5¢	467
MST	2.7¢	3.5¢	30
Total	4.2¢	12¢	186
Cigarettes (per thousand)			
Excise Tax	$9.39	$21.38	128
Excise Duty	$11.27	$29.37	161

Changes to the personal and corporate income tax regimes have also increased federal tax revenue. Approximately one-quarter of the additional taxes payable in 1990 will be due to personal income tax increases.

The introduction of the GST will continue the federal policy of relying on higher taxes to support spending. The GST will also make major new inroads into the area of consumption taxation, raising over $24 billion of tax revenue in 1991. This revenue will be nearly $6 billion more than the government would have received from the MST at current rates and $12 billion more than from the MST at 1984 rates.

The willingness of the federal government to raise taxes by such a large amount over the past five years suggests that it is reasonable to expect substantially higher GST rates in the future. Most other countries with value added taxes have exhibited a strong tendency to increase the tax rate over time. Since Sweden's introduction of a value added tax in 1969, that country has raised its rate by over 100 percent. The United Kingdom and Italy have increased their value added tax rates by 50 percent since introducing the tax in 1973. New Zealand raised its value added tax rate by 25 percent within three years of its introduction in 1986.

The GST aggravates the conflict between federal fiscal policy and monetary policy.

Increases in consumption taxes are not an effective instrument for reducing the deficit because they tend to raise government spending automatically.

Increases in consumption taxes are immediately reflected in the consumer price index. The higher inflation raises government expenditure through higher payments on programs which are indexed

to the consumer price index, and higher program costs in general. The **federal government acknowledges that a large part of the $6 billion revenue increase generated by the GST will go towards increased expenditures; not one cent will be used to reduce the federal deficit in 1991.**

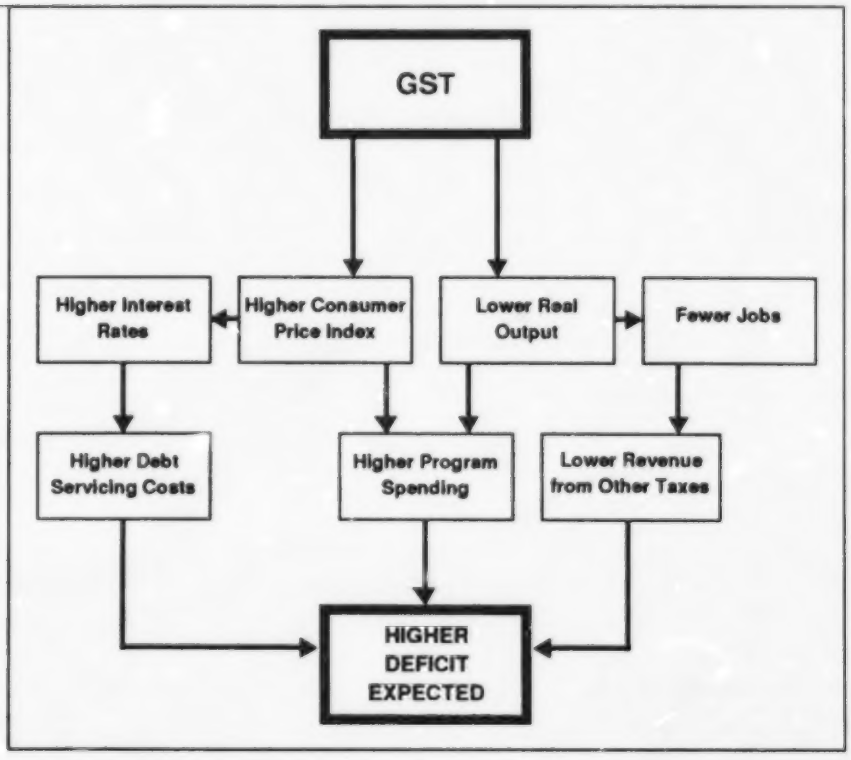
Federal tax policy has been on a collision course with monetary policy. Higher consumption taxes feed directly into inflation. The Bank of Canada, in its effort to control inflation, raises interest rates. Higher interest rates raise the cost of servicing the federal debt and depress economic activity.

The GST will aggravate this harmful policy conflict, instead of helping to solve it. By raising inflation, it will put additional pressures on the Bank of Canada to raise interest rates. It will bring us higher federal taxes, higher inflation, and higher interest rates and will leave us with fewer jobs, reduced economic growth, higher federal expenditure and an anticipated higher federal deficit.

According to a study by an independent investment dealer, Wood Gundy, the likelihood of higher interest rates and a higher Canadian dollar as the Bank of Canada attempts to moderate demands resulting from the imposition of the GST at 9 percent would seriously weaken economic growth and thus increase the federal deficit by $3 billion.

This conflict between monetary and fiscal policy is hurting all Canadians and must be resolved.

Budgetary Impact of the GST



The GST will be harmful to Canada's and Alberta's economies.

Uncertain Long-Run Benefits of Sales Tax Reform

In its economic analysis of the GST, the federal government emphasizes the long-run efficiency gains that are expected to flow from replacing the MST with a value added tax. They claim the GST will eventually add 1.4 percent to Canada's real domestic output.

Experimental Federal Model

Federal estimates of the long-term efficiency gains to regions, industrial sectors and income classes have been derived by means of an experimental, computable general equilibrium (CGE) model of the Canadian economy, developed by the Department of Finance. This technique can be useful in trying to gauge the economic responses of producers and consumers to tax policy initiatives.

General equilibrium analysis, however, is no substitute for macroeconomic time-series analysis of the impact of the GST on prices, employment and output in the short to medium term. First, general equilibrium analysis employs only real input and output variables; there are no market prices, interest rates or currency exchange rates. Hence, this tool is unable to simulate many of the important interactions that occur in the economy, such as the effects of inflation on real output.

Second, general equilibrium modelling is essentially static. It compares an initial assumed "equilibrium" of the economy with a final equilibrium attained after all effects of the policy change on individual economic behaviour are taken into account. Therefore, it is unable to forecast a time-path for the transition of the economy to this hypothetical long-run position. In the case of the GST, most of the benefits predicted by the federal government are expected to materialize through an increase in capital. This process could take decades as the existing capital stock wears out and is replaced.

It is important to note that no other general equilibrium study has yielded results nearly as optimistic as the federal study. The economic benefits of the federal value added tax proposal have been evaluated with the use of general equilibrium models by well-respected academics: Thirsk (1985), Whalley and Trela (1986) and Hamilton and Whalley (1989). The estimated gains of Thirsk, and of Hamilton and Whalley are roughly one-tenth and one-quarter of the federal estimates, respectively. The Whalley and Trela study actually estimates a net loss. Only a small part of the difference between these estimates and those of the federal Finance study can be explained by the use of 1980 rather than 1988 data for the MST base and rates.

Shortcomings of the Model

The federal analysis indicates that most of the estimated long-run gains from the GST are the result of the elimination of the MST's indirect tax on capital goods, which is estimated by the federal government to be about 4 percent. In their model, this leads to a rise in investment and, ultimately, a larger capital stock and enhanced labour productivity.

The elimination of a 4 percent tax on capital is essentially equivalent to a 4 percent refundable investment tax credit. The roughly 1 percent rise in real GNP implied by the federal estimates for this change is surprisingly large in light of past experience with investment tax credit programs. Indeed, the federal government eliminated a 7 percent investment tax credit as part of phase one of tax reform, presumably because the benefits were not sufficient to match the cost in foregone revenues.

The potential rise in the capital stock is also overestimated by the federal general equilibrium model because it assumes there are no supply constraints in extractive industries and, therefore, does not reflect the geotechnical realities of extractive industries. For example, the model assumes that, when the cost of capital is reduced, new coal shafts will be sunk even at older mine sites where the coal has been largely depleted.

Another key and seriously flawed assumption of the federal general equilibrium model is that all Canadian exports have unlimited demand and, therefore, face fixed prices in international markets. This implies that the loss in domestic sales of products that incur higher relative prices because of the GST will be totally offset by increased export sales at unchanged prices. Given the magnitude of the rise in export volumes expected by the federal government, the assumption of fixed export prices is unrealistic. This assumption is unlikely to hold for a large number of important Canadian exports, such as natural gas, coal, uranium, potash, nickel, sulphur, aluminum, softwood lumber, newsprint, fish and electric power.

Assuming that 100 percent of exported goods can be sold at fixed world prices leads the federal government to overestimate the expansion of total exports. This results in an overestimate of capital expansion and the ultimate long-term output gains from the GST. General equilibrium studies by Thirsk (1985) and Whalley and Trela (1986) recognize that many exporters must reduce prices to increase sales. The Whalley and Trela study indicates that the adverse effect of exporting more at lower net prices exceeds the efficiency gains of a value added tax, yielding a net real loss to Canadians.

In addition to the negative effect on our export prices, some industries would incur significant adjustment costs to switch from Canadian to export markets. The federal model ignores such adjustment costs, as it assumes that all industries will be able to expand their sales abroad with no additional costs.

In summary, the magnitude of the long-term real output gains from the GST estimated by the federal study are the maximum possible, using the most favourable set of assumptions. Even under the most optimistic assumptions, these expected long-term gains are fairly modest in magnitude. These potential gains will be neutralized if the medium-term impact of the GST throws the economy onto a path of slower growth.

Short- to Medium-Term Costs of the GST

Introduction of the GST runs the serious risk of initiating a period of slower growth and higher inflation. While the federal government estimates that the first-year inflation response will be 2.25 percent, most independent studies have estimates ranging from 2.5 to 3 percent. The magnitude and duration of the economic slowdown caused by this initial price shock depend crucially on the wage response of workers and the monetary policy response of the Bank of Canada.

Optimistic Federal Assumptions

The federal government has again used the best possible scenario in its short-run forecast of the economic impact of the GST. It assumed that:

1. the cost savings to business from eliminating the MST will be fully and immediately passed through to consumers,
2. higher inflation will not lead to higher wages, and
3. the Bank of Canada will not raise interest rates in response to higher inflation.

As a result, the federal government is predicting a slight positive impact on employment and growth in the first year, despite the decline in real personal disposable income and consumer spending.

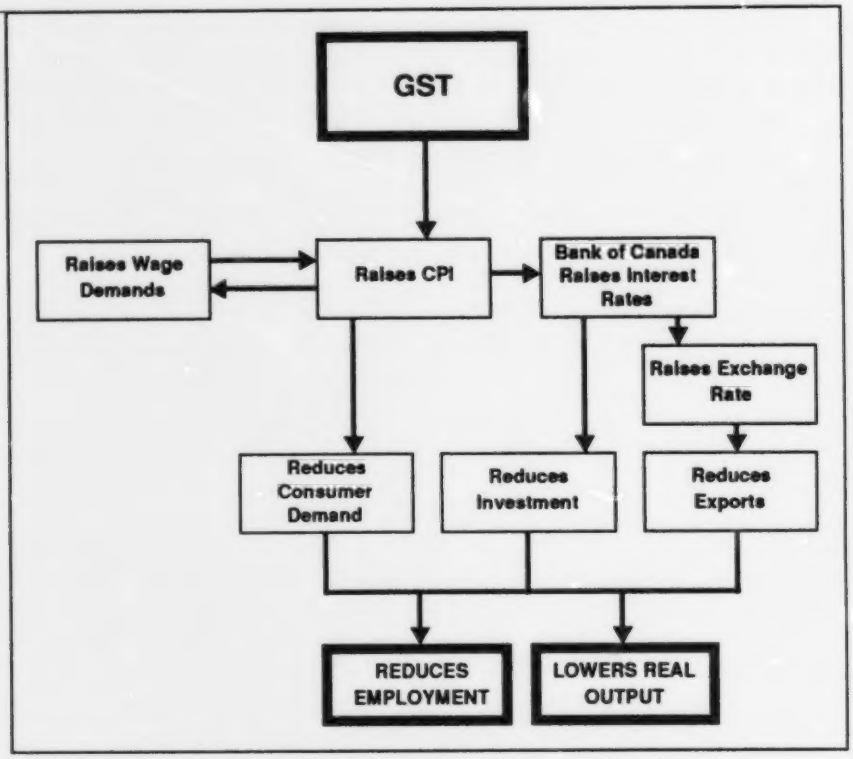
In the real world, the federal assumptions are not likely to hold. Businesses cannot realistically be expected to pass on the full benefits from eliminating the MST immediately. Also, it is unlikely that workers will be willing to accept a cut in real take-home pay with only the promise of some future supply-side "trickle-down" benefits.

The Bank of Canada will not idly watch the formation of a wage-price spiral. Even if the Bank is prepared to accommodate a first-round price level rise of perhaps 2.5 percent, the Bank would not tolerate a second round of inflation due to wage increases. As a result, interest rates will rise as the Bank attempts to restrain this inflationary pressure, slowing down investment and pushing the economy into a period of slower growth, or possibly a full recession.

Higher domestic interest rates will also tend to drive up the exchange rate of the Canadian dollar, reducing the competitiveness of our exports in foreign markets and forcing producers to absorb lower net returns on exports. This could more than offset the anticipated benefits of the small reduction in the taxation of exports under the GST.

Employment and output will fall under the combined impact of reduced domestic consumer demand, higher interest rates and a higher Canadian dollar. A study by the Institute for Policy Analysis at the University of Toronto indicates that we can expect substantial real losses for a period of 4 to 7 years. It predicts a cumulative loss during the 1991-2001 period of more than $7 billion of real output and over 600,000 man-years of employment.

Economic Impact of the GST



All-Province Study Uses Realistic Assumptions

In August, 1989, the Premiers directed their Finance Ministers and Treasurers to study the economic and fiscal impact of the GST. The following assumptions were agreed to by all provinces and fed into the Conference Board of Canada's econometric model:

1. about 70 percent of the cost savings to business from elimination of the MST will be passed on to consumers,
2. there will be a partial wage response to the decline in workers' real pay, and
3. the Bank of Canada will accommodate only the initial price shock of the GST but will react to the increased wage pressures by raising interest rates.

These all-province assumptions have been chosen as the most reasonable in the context of current industrial relations, the stated policy of the Bank of Canada and the structure of the Canadian economy.

The all-province study covers three years, from 1991 to 1993. The results indicate that Canada will suffer significant losses in output and employment under the combined impact of reduced domestic consumer demand, higher interest rates and a higher-valued Canadian dollar. Real gross domestic product (GDP) will be 1 percent lower than it would have been in the absence of the GST in 1991 and 1992 and 0.7 percent lower in 1993. There will be 185,000 fewer jobs in 1993 and a cumulative loss of 434,000 man-years of employment over the first three years alone.

The Canadian economy already shows signs of a slowdown. A federal tax policy that raises inflation, interest rates and the value of the dollar will deliver a severe shock to a weakening economy and may create a prolonged period of stagnation.

Macroeconomic Effects of the GST

(Changes from Base Case with no GST)

	1991	1992	1993
CANADA			
Real GDP (%)	-1.0	-1.0	-0.7
CPI (%)	3.0	2.5	1.9
Employment ('000)	-71.0	-178.0	-185.0
Unemployment Rate (%)	0.2	0.5	0.5
Interest Rate (%)	0.07	1.28	0.03
Exchange Rate (¢US)	0	1.6	1.7
Real Disposable Income (%)	-2.4	-1.1	-1.3
ALBERTA			
Real GDP (%)	-0.8	-1.1	-0.7
CPI (%)	3.2	2.7	1.9
Employment ('000)	-3.9	-18.6	-18.8
Unemployment Rate (%)	0.3	0.8	0.9
Real Disposable Income (%)	-2.6	-1.4	-1.6

Note: The symbol % represents percentage points.

Costs of the GST to the Alberta Economy

The federal government claims, that in the long run, Alberta will benefit more than most other provinces from replacing the MST with the GST. This is because the federal government assumes that our capital-intensive resource industries currently bear a large indirect tax burden.

The facts do not support the federal claim. Almost all capital inputs used in resource extraction are exempt from tax under the MST. Indeed, independent estimates of effective MST rates show that the rate of indirect taxation on resource commodities is extremely small. For example, the indirect MST rates on grain, coal, crude oil, natural gas and pulp are almost zero according to these estimates.

Energy products for residential consumption in Canada will be taxed for the first time under the GST. This will reduce domestic consumption of oil, gas and coal. Shifting sales from domestic markets to export markets would entail significant adjustment costs. Moreover, a study by Whalley and Trela for the Royal Commission on

the Economic Union (Macdonald Commission) indicates that such a large shift in exports would lead to lower net export prices, resulting in significant net losses to Alberta. These losses will be exacerbated if high interest rates drive up the exchange rate of the Canadian dollar.

In addition, the GST will tax transportation services in Canada for the first time. This will worsen Alberta's locational disadvantage and damage our ability to compete in distant central Canadian markets.

Alberta's hospitality and tourism sector will be adversely affected by the GST. Services will be taxed for the first time, increasing the relative prices of travel, accommodation and food services. Since vacation travel is highly price sensitive, the number of Canadian and foreign tourists visiting Alberta is expected to drop. The Tourism Association of Canada has estimated that the price of hospitality and tourism services will rise by 6 to 8 percent on average across Canada. This will result in a loss of $1 billion in output from the sector's current $21 billion contribution to Canada's GNP. Alberta's efforts to diversify through the development of our tourism potential will be hurt by the GST.

The economic effect of the GST on the Alberta economy was estimated as part of the all-province study using the Conference Board model. The results show that the Alberta economy will be among the hardest hit. Real gross domestic product will be considerably lower in all three years. Employment losses will be particularly severe, with about 19,000 fewer jobs in 1992 and 1993. Employment losses and lower real wages combine to reduce real disposable income by about $750 million in 1991 or about $850 per household.

The GST will increase Alberta's budget deficit.

The GST will have a large adverse impact on Alberta's fiscal position. The negative economic impact of the GST will reduce provincial revenues. In addition, the middle income tax rate reduction to 25 percent from 26 percent will reduce Alberta personal income tax revenue.

On the spending side of the government's accounts, the inflationary impact of the GST will raise certain provincial program expenditures. Higher interest rates will raise the cost to service the provincial debt.

The net result of the GST will be a significant deterioration of Alberta's financial position.

With respect to Alberta's municipalities, universities, schools and hospitals, the federal government is proposing a rebate system which would provide federal grants to protect this group from the additional burden arising from the GST. Alberta and other provinces are concerned that the federal rebate, particularly over time, will not be sufficient. This vital sector of our society may, therefore, face added cost pressures.

The GST will add to the complexity of the Canadian tax system.

The GST will be a nightmare for individuals and businesses. It will increase the number of tax registrants from 75,000 to 1.6 million. Even very small businesses will be forced to register in the GST system in order to receive tax credits on their purchases.

Thousands of new federal employees will be needed to handle the additional tax filers and the reporting requirements. **Tax administration costs will rise by hundreds of millions of dollars.** The GST will expand the federal bureaucracy at a time when cutting the federal deficit requires a reduction in federal spending and a leaner federal civil service.

Mountain of Paperwork

The GST will add substantially to the paperwork and administrative workload of all businesses. The basic operation of the GST requires firms to distinguish between taxable, tax-exempt and tax-free goods and services. Registrants will be required to collect and remit, monthly or quarterly, the GST on all sales of taxable goods and services. They will be eligible to receive input tax credits for the tax paid on purchases used for the production or resale of taxable and tax-free goods and services. No tax will be remitted and no input tax credits will be refunded for the sale of tax-exempt goods and services. The operation of the GST forces businesses to change their accounting systems to provide adequate records for calculation of their net GST remittance or refund.

Two types of costs will be incurred by business: start-up costs and ongoing operating costs. The start-up costs are one-time costs which include expenditures on capital items, such as electronic point-of-sale equipment and expensive new computer programs. These start-up costs can be significant, especially for smaller firms. The administrative costs of complying with the GST will be especially high for Alberta firms, which have limited experience with retail sales taxation.

The operating costs of administering the GST will vary with the number of transactions that each firm undertakes, but not with the dollar amount of each transaction. In other words, compliance costs are relatively heavier for small businesses. The federal small business administration allowance is unlikely to cover fully these costs. Only businesses with revenue from taxable and tax-free goods and services of less than $2 million will be eligible for this annual allowance of up to $600. While the costs of administering the GST could be passed on to consumers, smaller firms may have to absorb these costs in order to compete with larger firms.

Administration of the GST will be especially complicated for firms making or selling both taxable and tax-exempt items. Firms will have to change their accounting systems to ensure that no input tax credits are claimed for the production of tax-exempt goods and services. As well, the standard mark-ups will have to be adjusted to recover the GST incorporated in the cost of production of tax-exempt

products. In provinces other than Alberta, administration is made more complicated because firms will have to account for both the GST and provincial sales taxes.

Administrative Costs of GST

Number of Registrants	• GST will increase the number of registrants from 75,000 to 1.6 million.
Federal Tax Collectors	• An additional 4,000 to 10,000 tax collectors will be required.
Cost to Federal Government	• $200 million to administer GST at a minimum. • $600 million paid to small businesses in administration fees.
Cost to Private Sector	• Costs to small businesses will likely exceed the fees paid by the federal government. • Substantial costs to all other businesses.

The GST will be onerous for volunteer and non-profit organizations. If they are covered by the small traders' exemption, their costs will increase because they do not receive input tax credits on purchases. If they are registrants, they may under certain conditions be eligible only for partial credits and their administration costs will increase.

Despite an earlier promise, the federal government has not made it mandatory for retailers to make the GST visible on the bill the consumer must pay. The federal visibility requirement is that a sign must be posted indicating that some prices include a 9 percent federal tax. Because the GST can be hidden, consumers will face confusion if different retailers use tax-included and tax-excluded sticker prices.

Confusion will be further aggravated by the distinction between tax-free, tax-exempt, and taxable items in the GST system. This problem will be of particular concern to grocers who must distinguish between tax-free basic groceries and taxable food products.

A tax-included price obscures accountability and creates price distortions. Consumers will be given no guarantee that retailers will limit the increase in the sale price of goods to the 9 percent GST rate if the tax is not recorded separately on the tag price. In some instances, prices may be rounded up, thus raising the purchase price by over 9 percent.

Finally, there is no guarantee of the federal claim that the full savings from the removal of the MST will be passed on to consumers. The MST is a hidden tax and has numerous exemptions. Consumers are currently unaware of how much they are paying in federal sales tax on each item they purchase. It will be impossible for consumers to know how much the price of a good should decline with the removal of the MST. Indeed, many firms will not know the indirect MST included in their purchases. In the confusion during the transition from one tax to the other, some firms may capture the tax benefits that they are expected to pass on to consumers.

The GST will continue the federal policy of fiscal centralization.

The Constitution Act, 1867, granted the federal government unlimited taxing powers. The provinces were given more restricted taxing powers and were assigned jurisdiction over what have become major expenditure areas including health, education and social services.

The importance of provincial program responsibilities has grown tremendously to meet the needs of a modern society. As a result, the provinces for decades have faced a fiscal gap or imbalance as their abilities to raise revenues are insufficient to meet their spending responsibilities. To narrow this gap, the federal government has several programs that transfer money to the provinces.

These federal transfers have become a fundamental component of Canadian federalism. They include Equalization, Established Programs Financing (EPF) for health and post-secondary education, and the Canada Assistance Plan for social programs. Over the last few years, the federal government has reduced its commitment to transfer payments to the provinces. The most significant change affecting Alberta has been the reduction in the federal share of funding for health and post-secondary education. In the period 1986-87 to 1991-92, Alberta will have lost over $800 million from what we would have received under the original funding formula.

Due to these unilateral transfer payment reductions, provinces have been forced to increase taxes, increase borrowing and cut other expenditures in order to maintain quality health, education and social programs. The substantial savings to the federal treasury have come at provincial expense.

On the tax side, the federal government has historically had a predominant role in income taxation. The consumption tax area was left largely to the provinces. In 1984, the federal government occupied two-thirds of the income tax field. By comparison, the provinces had two-thirds occupancy of the consumption tax area.

The federal government has been expanding its occupation of the consumption tax room for some years. Between 1983-84 and 1988-89, consumption tax revenue increased at a substantially higher rate for the federal government than the provinces. As a result, the federal share of total consumption taxes increased markedly. The federal expansion into the consumption tax area was particularly pronounced in the case of fuel taxes. Within a five-year span, the federal government more than tripled its share of fuel taxes.

The federal share of consumption taxes will be greatly boosted by the GST. This tax will generate in 1991 nearly as much revenue as the provinces will collect from all their consumption taxes. The GST represents a major federal intrusion into retail sales taxation, an area traditionally reserved for the provinces. **For Albertans, it will mean that the dollars the Government of Alberta has left in citizens' pockets by not having a provincial sales tax will be siphoned off to Ottawa by the GST.**

The federal government is moving rapidly to gain dominance of both income and consumption taxes. Ultimately, the federal government may end up controlling two-thirds of both income and consumption taxes. This, combined with federal retrenchment on transfer programs, means the provinces will have less ability to meet the particular needs of their citizens.

For additional copies, please contact:

Alberta Treasury
Support Services and Publications
Room 302, Terrace Building
9515 - 107 Street
Edmonton, Alberta T5K 2C3
Telephone (403) 427-3035